

2018 Mortality Tables Released

The Society of Actuaries (SOA) has released its annually updated mortality improvement scale for pension plans, [MP-2018](#), which projects lower future rates of mortality improvement and lower pension plan obligations compared to the previous scale, MP-2017. The SOA's preliminary estimates suggest that implementing the MP-2018 improvement scale could reduce a plan's pension obligations by 0.2 percent to 0.6 percent. Defined benefit pension or other post-employment benefit plans should consider this information for any financial statements that have not yet been issued.

Accounting Guidance

U.S. accounting standards do not mandate a particular mortality table, meaning sponsors ultimately decide what assumptions they use for financial statement reporting. In measuring each plan's defined benefit obligation and recording the net periodic benefit cost, financial statement preparers should understand, evaluate and reach conclusions about the reasonableness of the underlying assumptions on an ongoing basis. U.S. generally accepted accounting principles require that "each significant assumption used shall reflect the best estimate." Since SOA's MP-2018 scale is the most up-to-date information available, it should be considered for both financial statements not yet issued and for 2018 year-end measurement, even though the new table has been issued late in the year. Both benefit plans' and plan sponsors' financial statements should be evaluated. Management should document the key assumptions used and reasons why certain assumptions may have changed from the prior reporting period.

Plan sponsors should discuss the implications of the new SOA table with their auditors and actuaries as soon as possible. Sponsors and benefit plans that have not yet issued financial statements need to evaluate whether the updated scale provides additional evidence about conditions that existed as of the balance sheet date.

If the new mortality information is not incorporated, plan sponsors should clearly document the review process and justification for alternative mortality assumptions, *e.g.*, materiality or not being representative of their population. For an auditor to be able to issue an unqualified opinion, the documentation must be sufficient to conclude the mortality assumptions represent the best estimate of the benefit plan obligations.

IRS Guidance

The *Pension Protection Act of 2006* authorizes the IRS to prescribe mortality tables used in the calculation of funding liabilities and minimum lump-sum calculations; it typically relies on data provided by the SOA. For 2019 valuations, the IRS recently approved the mortality improvement rates in SOA [MP-2017](#) (see [IRS Notice 2018-02](#)).

For additional guidance, contact your BKD trusted advisor.

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